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Seizure of nineteen Japanese fishing boats in Hawaiian waters and the subsequent forfeiture of six to the United States Government was revealed today when Elmer L. Ireby, Chief Coordinator of Treasury law enforcement agencies, submitted his annual report to Secretary Morgenthau.

Seventy-one Japanese, most of them aliens, but a few of American birth, and three Honolulu fishing companies were indicted in March, 1941, as the result of coordinated efforts of the Customs Agency Service, the United States Coast Guard and the Intelligence Unit of the Bureau of Internal Revenue. The indictments charged conspiracy to violate the navigation laws of the United States, and allege the use of false "bills of sale," and false "managing owners' oaths," in registering the vessels.

The specific charge involved is violation of an Act of Congress passed in 1793, which requires that all vessels of American registry must be American owned. None of these Japanese ships was so owned, Mr. Ireby's report indicates.

Also involved in this case is a further conspiracy to defraud the Treasury out of income taxes.

The Japanese fishing boats operating out of Honolulu, and the three fishing companies which buy and sell their "catch", handle their finances and do their buying, have long been under suspicion by U. S. Government agencies. Acting for the Department of Commerce, the Customs Agency Service, which does all of its investigatory work, the Intelligence Unit of the Bureau of Internal Revenue, and the Coast Guard, supporting both agencies with its service when needed, worked for many months on this case. Many of the Japanese involved in this conspiracy had American-born Japanese wives and American-born Japanese children and other relatives. Placing the registry of their boats under the names of such relatives they thus sought to evade the U. S. Navigation Laws. In some instances these Japanese lived in Japan, in others they made regular trips to Japan, ostensibly to get medical treatment or to take the baths.

Some of the nineteen fishing boats were covered by mortgages which had been financed through the fishing companies under indictment, mortgages said to be too heavy for the individual Japanese owners to carry. The financing of these boats was one of the suspicious threads in the conspiracy.

In view of world conditions this is regarded as the most momentous case developed by any of the enforcement agencies of the Treasury during the fiscal year ended June 30, and in recognition of its importance, and of the brilliant way in which it was handled, Acting Secretary of Commerce Wayne C. Taylor wrote Secretary Morgenthau:

"This Department appreciates the thoroughness with which the Customs Agency Service has completed this long and tedious task, and suggests that the officers of the Treasury Department concerned be commended for the efficient manner in which the investigation was completed."

National Defense Activities

National defense occupied much of the time and attention of the enforcement agencies of the Treasury, Mr. Irey reported. They met these unusual tasks with high resolve and admirable success, which in no way interfered with the usual course of their varied duties. The results of the fiscal year's work in each of these agencies, Mr. Irey stated, is most gratifying.

Income tax dodgers, rum, narcotics and fur smugglers, and other criminals whose unlawful pursuits cheated the Treasury out of millions of taxes, were sent to prison.

Close cooperation of the Treasury enforcement agencies in their varied work is commended by Mr. Irey, and attention is directed to the help they received from other Government agencies and from State and local police and such world-famed organizations as the Royal Canadian Mounted Police.

Customs Seizures

Narcotics seizures by the Bureau of Customs for the fiscal year aggregated 800, a gain of 200 over the preceding year. This, coupled with a decrease in shipping, due to world conditions, drove prices of illicit narcotics to new highs, indicating, the report says, an increasing scarcity of these drugs.

Total seizures of all kinds of smuggled commodities totaled 8,000, an increase over the previous year. Smuggled liquors showed a decrease.

Mexican raw opium and marihuana continued to trickle across the border into the Southwest.

Southern California and the Pacific Coast ports received some raw opium from Mexico and the Far East. This region, however, was so closely policed by Customs agents that, although there were many indications of an increase in attempted smuggling most of it was aborted.

Customs officers also broke up a conspiracy of certain Japanese seamen to smuggle narcotics into Pacific Coast ports on April 2, when they arrested, at San Francisco, a Japanese crew member of the NITTA MARU, who was attempting to bring in 186 ounces of smoking opium packed in tins of Far Eastern origin. A Customs officer, posing as a longshoreman, went aboard the vessel and took delivery.

One of the largest individual seizures of narcotics during the fiscal year was made at Baltimore on March 22, 1941. It consisted of one hundred and twenty-one 5-tael tins of smoking opium, weighing 774 ounces. A Filipino steward on an American vessel was arrested, tried, convicted and sent to prison.

Seizures of a number of soft metal tubes of smoking opium, in the autumn of 1940, at San Francisco and at New York, led to an investigation which disclosed that these tubes had been packed in the British Opium Monopoly plant in Singapore and shipped to the British Monopoly at Hong Kong.

During the year there were several seizures by Customs' and Narcotics' officers of so-called "chop-stick" opium, bearing Arabic characters, indicating it was of Persian origin. This opium had been smuggled from the Far East by way of Curacao, Netherlands West Indies.

Of unusual interest was the arrest by Customs' officers, at Blaine, Washington, of Leo E. Morland, a British subject, who had in his possession fifty-seven bars of gold, which he had attempted to smuggle into the country. The gold, valued at \$55,000, was concealed in a false compartment of a trunk. It originated in New Guinea and Australia, and was taken to New Zealand and smuggled from there into Canada.

Customs officers at New York, in May of this year, seized 124 bales of Oriental rugs from Persia, of an estimated forfeiture value of \$89,000, which had come into the country on false invoices and were undervalued.

During the fiscal year 1941 (11 months) the Customs Service sent 301 persons to prison, an increase of 98 over the previous year.

Coast Guard Had Busy Year

The Coast Guard, national maritime law enforcement agency of the Government, had a very active year, Mr. Irey's report discloses.

"There was a complete absence of organized liquor smuggling by sea", it states. This was due to two factors, each traceable to world conditions. Foreign shipping was brought under more strict control, and smugglers had difficulty obtaining stocks of cheap alcohol and liquor from Europe.

During the year the Coast Guard trailed 3,595 vessels to prevent contact with small boats used in the smuggling trade. Coast Guard aircraft, Mr. Irey says, in cooperation with the Alcohol Tax Unit located 708 illicit stills, 92 of which were seized, with 3,860 gallons of non-tax paid liquor and 246,320 gallons of mash.

In the enforcement of the neutrality laws the Coast Guard, during the fiscal year sealed 9,098 radio apparatus on merchant vessels owned, controlled or operated by the governments or nationals of belligerent countries, to prevent unauthorized radio transmissions while the vessels were in United States waters.

Armaments on 613 merchant ships were inspected to determine if they were armed for defensive or offensive purposes and thereby establishing whether the vessels should be treated as commercial ships or ships of war.

In its patrol work over merchant shipping, the Coast Guard sighted and identified 269,531 foreign and domestic vessels during the year.

In recent months the Coast Guard took into protective custody 2 German, 27 Italian and 35 Danish merchant vessels immobilized in ports of the United States.

During the year Coast Guard vessels cruised 2,236,454 miles and Coast Guard aircraft flew 125,744 miles. In the prevention of narcotics smuggling, 3,598 vessels were trailed. Regattas patrolled numbered 481, and vessels boarded 34,948, of which 708 were reported for violations.

Narcotics Violations Decrease

In the matter of narcotics violations, the illicit traffic in heroin continues to carry the flag, Mr. Irey's report shows; but in that activity drug seizures declined more than 50 percent, so far as the internal or domestic trade is concerned. Opium led the van at seaports and along the borders. Seizures of both crude and smoking opium showed heavy increases.

There was a decrease in the number of persons arrested by the Bureau of Narcotics for violations of the Federal narcotics laws (excluding marihuana), 1,813 persons being arrested in the fiscal year 1941 as compared with 2,796 in the previous year. There was some increase in the number of persons arrested for violations of the Marihuana Tax Act - 1,010 as compared with 788 for the fiscal year 1940. The combined arrests for all types of narcotics violations decreased from 3,584 to 2,823.

There was a decline in the amount of illicit narcotics seized in the internal traffic while there was an increase in the amount of drugs seized at ports and borders. The combined total of seizures for the fiscal year 1941, 5,863 ounces, approximated very closely the combined seizures for the fiscal year 1940, 5,854 ounces, but these amounts were far below the average for the three preceding years--- 21,209.

Mr. Irey found some satisfaction in the marihuana eradication program, in which the Bureau of Narcotics, in cooperation with other Treasury agencies, and with the assistance of Federal, State and local authorities, destroyed an estimated 33,235 acres of growing marihuana. This was almost a 300 percent increase.

The scarcity of narcotic drugs in the illicit traffic, and the shortage of smuggled drugs in many sections of the country, have forced peddlers and addicts to resort to burglary, robbery, forgery and other crimes to get their supplies. Robberies and burglaries of pharmacies and other registered establishments are of frequent occurrence; cases involving the forgery of narcotic prescriptions by addicts or peddlers have increased. Wholesale drug houses and manufacturing chemists who are required to keep a large supply of crude narcotic drugs in stock have so carefully safeguarded their stocks that large losses of these drugs have been comparatively few.

Many addicts still are attempting to satisfy their cravings for narcotics by resorting to paregoric or similar so-called exempt preparations. During the year several states passed legislation placing further safeguards about narcotic preparations of this type; in consequence many cases have been noted where drug addicts migrated to adjoining states where these restrictions did not apply.

A development in the illicit narcotics traffic has been the increase in the number of violations among persons registered under the Harrison Narcotic Law to dispense such drugs lawfully. This Mr. Irey attributes to the fact that peddlers and addicts were driven in increasing numbers to seek supplies through diversion from the legitimate trade. Two such cases will serve as illustrations.

Francesco A'Vessa, owner of a drug store in New York City, was caught selling narcotics. He pleaded guilty in May 1941 and was sentenced to imprisonment for a year and a day. The charge against him was the unlawful sale of paregoric in large quantities. In trying to cover up his tracks he had required

purchasers to drink at least two ounces of the drug at the time of the sale. This case was so flagrant that the court, in passing sentence, expressed the hope that Congress would make more restrictive the laws affecting the sale of paregoric and similar preparations.

In Leachville, Arkansas, a physician, Dr. Vernon R. Fox, and two druggists, Robert Lee Eblen and Joe Curtis Garrett, were detected selling and filling prescriptions for narcotics in violation of the Harrison Narcotic Law. All three were sentenced. In this case there were 16 illegal sales, covering 3,145 morphine tablets, for which 397 pretended prescriptions were written in many fictitious names and variously dated.

Another physician, in the same State, Dr. W. E. Bailey, of Little Rock, was sent to prison for five years, after he had made several illegal sales of morphine to Narcotics officers. During a six months' period Dr. Bailey had written 3,376 prescriptions calling for 55,165 morphine tablets.

Through the activities of the Bureau of Narcotics, according to Mr. Ireys summation, some big time criminals were brought to book. Among these were members of the notorious gang headed by Louis (Lepke) Buchalter and Emanuel Weiss, leader of the notorious "Murder, Inc." Weiss was indicted in Manhattan, in Brooklyn and in Fort Worth, Texas, on narcotics charges. Forfeiting a substantial bond, he became a fugitive. In July, 1940, many of his co-defendants were tried at Fort Worth.

It developed that the Weiss organization planned to distribute narcotics from New York to Illinois and throughout the Southwest. Sixteen members of this gang were convicted. Among them were two notorious and dangerous criminals: Philip Chadwick, sentenced to 12 years imprisonment; and Charles Schiffman, sentenced to 10 years imprisonment. Included with Weiss in the Brooklyn indictment were Philip Cohen, Samuel Bernstein, Albert Angelson and Abraham Lorber, who were given long prison terms. Weiss, Cohen, James Russo alias Feraco and Buchalter are under indictment in New York City for murder. Weiss was captured by Narcotics' officers at Kansas City, Mo., in April 1941, while posing as the president of a mining company, and returned to New York to stand trial on the Narcotics and murder charges.

In June of this year Walter S. Hooper, an ex-convict, who had served twelve years for a major violation of the narcotic laws was arrested at San Mateo, California, by Narcotics officers. He was posing as a respectable hardware merchant, and it developed that he was the Pacific Coast narcotics representative of "Mendy" Weiss.

Another member of this notorious gang, Samuel Bernstein, was taken by officers of the Bureau of Narcotics, who apprehended him in the operation of a chemical plant at Moonachie, N. J., where he was found to be experimenting with the alteration and adulteration of narcotic drugs designed for sale in the illicit traffic. He had been twice convicted on narcotics charge and was regarded as a major figure in the underworld. He was found guilty and sentenced to seven years in addition to the Brooklyn sentence of ten years.

Climaxing a year of intense activity against large gangs of narcotics peddlers, Mr. Irey's report calls attention to the destruction of two such gangs in Chicago by the Bureau of Narcotics: the Nathan Banks gang, in which the principal got fifteen years in prison and five of his lieutenants ten years each; and the Daniel Morbete gang, in which Morbete, Anthony Valenti, Henry Guardino, Peter Galiano and Charles Friedlander,

all vicious criminals and substantial violators of the narcotics laws, were given ten years each; Eugene Romano, eight years; and Albert Roginski three years.

Counterfeiting Losses Cut

Reviewing the work of the Secret Service for the fiscal year, Mr. Irey directed attention to its three outstanding accomplishments, viz.:

1. The making of education of the public in the detection of counterfeit money a permanent program.

2. The continued decrease on a large scale of losses to the public through the acceptance of counterfeit bills.

3. The successful prosecution of manufacturers and dealers in worthless slugs.

Prior to the inauguration, in 1937, by Chief Wilson, of the "Know Your Money" educational campaign, the annual loss to the public through the acceptance of counterfeit notes for a four year period (1933-1936) was \$771,000. This was reduced in 1941 by 88 percent to \$91,096.

Agents of the Secret Service, the report states, exhibited its sound motion picture, "Know Your Money", and lectured on how to detect counterfeit money to 2,749,044 retail merchants. Students in public and other schools and members of civic organizations, to whom the picture was shown and before whom the

lecture was given, brought the total to 5,749,989 persons, since January 1940, when the campaign was introduced.

As a text-book to be used in this educational campaign, the Secret Service has issued a 32-page booklet, entitled "Know Your Money", which is illustrated with photographs of counterfeit currency. It is the only publication in circulation containing photographs of counterfeit money, it being unlawful to print pictures of genuine or counterfeit money.

This brochure has been distributed by the Secret Service to police departments, merchants, banks and high schools. In a number of instances, members of Congress have obtained large blocks for their constituents. During the school year just closed it was successfully used as a text-book in several high schools, receiving universal approval from Boards of Education. With the coming of the Fall term it will be more widely used. To date 148,080 copies have been distributed.

Chief Frank J. Wilson reported to Mr. Irey that the educational campaign conducted during the past four years by the Secret Service has demonstrated that the use of modern educational methods to prevent crime are decidedly more effective in the suppression of note counterfeiting than the century old methods of prosecution and imprisonment. For this reason, on January 1, 1941, the decision was made by the Secret Service to adopt education as a permanent program in the war on counterfeiters.

Attention is called in the report to the fine cooperation the Secret Service received in the "Know Your Money" campaign from local police, mayors and school boards, as a result of which local merchants and others have found a decrease in their counterfeit money losses.

Second in importance to making and passing counterfeit money is the growing use of slugs in coin-operated machines. "This form of American business is suffering stupendous monetary losses from a growing evil akin to counterfeiting," Mr. Irey said. Millions of worthless coin slugs have been used to operate vending machines. Owners of small retail stores are the victims of this widespread fraud. Telephone and traction companies, cigarette vendors and restaurants sustain a heavy annual loss. The slug racket, Mr. Irey's report stated, has resulted in the startling yearly loss of \$5,000,000.

It took years of effort before the Secret Service could obtain an interpretation of the counterfeiting laws which would permit Federal prosecution of slug makers and dealers. In December, 1940, Max Wasserman, a slug dealer, was convicted in Federal Court in Omaha, Nebraska. In March of this year, Secret Service agents arrested Philip O. and Eugene Flint, owners of two slug factories at Dayton, Ohio. At their plants agents seized 451,000 completed slugs of the size of 5¢, 10¢ and 25¢

coins, 26 dies for making slugs, and 4,000 pounds of metal. Investigation disclosed that slugs from the Flint factory were sold throughout the country through mail orders at the rate of 30,000 a day.

Acting upon information gathered from the records of the Flint brothers and other sources, Secret Service Agents and Post Office Inspectors, aided by local police, in quick succession, caused the indictment of other slug manufacturers and dealers in Minnesota, Wisconsin, Michigan, New York, Kentucky and Texas.

Losses to the public through the acceptance of counterfeit coins other than slugs during the year totaled \$49,857.56 against \$51,737.42 the previous year.

A new form of counterfeiting was uncovered by the Secret Service when Agents in New York arrested Louis Carlo Avila, Angelo M. Castellano, Pompey Thomas De Carolis and Ralph Joseph Zirpoli for conspiring to make counterfeit 25¢ Department of Agriculture food stamps. The plates were seized before the printing began.

Forged Government checks is another racket that the Secret Service is devoting much attention to, this report discloses. Last year 14,161 such cases were investigated, as a result of which reimbursements were obtained and other collections and recoveries were obtained for the Government in the amount of \$248,721.

A recent case of forged Government checks resulted in the arrest of Samuel Newton Hedges, aged 62, superintendent of the paint and finishing shop, Senate Office Building, since 1917. An investigation by the Secret Service, at the instigation of Senator Byrd of Virginia, established the fact that in 1934 Hedges began to place fictitious names on the payroll of his shop, securing their monthly checks and forging their names to the same. The total amount of the peculation involved 361 checks and \$41,790.85. Hedges admitted guilt, and is out on bond, awaiting action of the District of Columbia grand jury.

As many Government checks are cashed by merchants, the Secret Service is promoting a "Know Your Endorser" campaign, through which it is planned to teach business men and cashiers to demand proper identification when cashing such checks.

The Secret Service made a total of 2,949 arrests during the year, as compared with 3,281 in 1940. These arrests represented the following violations:

198 for making or passing counterfeit bills.

554 for making or passing counterfeit coins.

1,859 for forging Government checks.

338 for miscellaneous offenses.

Convictions were obtained in 2,451 cases. There are 894 cases awaiting court action. Convictions were obtained in 97.1 percent of the cases of the Secret Service brought to trial.

Big Income Tax Evaders

Reporting for the Intelligence Unit of the Bureau of Internal Revenue, over which he also presides, Mr. Irey found that 172 persons from all walks of life were indicted for evasion of income and other taxes; 192 individuals were tried during the year and 156 were convicted. In addition to prison sentences, fines aggregating \$300,000 were assessed. Additional taxes and penalties totaling \$33,810,418.30 were recommended for assessment in cases investigated during the year.

Criminal proceedings were instituted against 15 other individuals on miscellaneous charges, due to investigations made by the Intelligence Unit. Seventeen individuals, some of whom were indicted prior to the present fiscal year, were tried and 16 were convicted.

Two outstanding cases were those of Joseph M. Schenck, one of the most important figures in the moving picture industry, and George Scalise, a powerful figure in organized labor. Both were charged with income tax evasions, Schenck of \$250,000 for several years, and Scalise of \$104,682 for 1937 to 1939. Schenck stood trial, with his principal accountant, Joseph H. Moskowitz, was convicted and sent to prison for three years and to pay a fine of \$20,000. Moskowitz also was convicted, and went to prison for a year and a day, and was fined \$10,000. Scalise pleaded guilty and was sent to prison for three and one half years.

Smuggling Ring Broken Up

The Enforcement Division of the Alcohol Tax Unit, in protecting the revenue on alcoholic beverages, also had a very busy year, Mr. Ireys report shows. Illicit stills numbering 11,824 were seized, 26,010 arrests made and 6,898,178 gallons of mash confiscated.

In cooperation with the Customs Service and the Royal Canadian Mounted Police, the Alcohol Tax Unit, after persistent sleuthing, uncovered one of the largest illicit liquor conspiracies ever organized in this country. This was the Hyman Frank-Abe Moss-Hyman Projansky gang, which operated like a well oiled business, having distilleries in Chicago, fleets of trucks operating between Chicago and Detroit, and from Chicago into Ohio, Indiana and Southern Illinois, and smuggling into Canada. So huge were its operations that it defrauded the Government of \$2,500,000 in excise taxes, and the Dominion of Canada out of large excise and war taxes. The leaders of the gang were all caught and sent to prison. More than twenty of their subordinates entered pleas of guilty. The dragnet caught some thirty-five persons. Tied in with rum running was a fur smuggling conspiracy, which was also uncovered and those engaged in it sent to jail.